

Appendix F

Sample Export Business Plan: Donga Michael Export Company

EXECUTIVE SUMMARY

Donga Michael is a newly created export company located in Fort Lauderdale, Florida. The company started its operation in September 2005. It exports computers and parts to the Republic of South Africa. Trade in computers between the United States and South Africa has been growing at a faster rate since the end of apartheid. The company intends to supply high-quality computers to the business sector and later to schools and universities.

South Africa is the largest computer market for the United States in sub-Saharan Africa. Every year, it imports computer peripherals and accessories worth over \$60 million. With the end of apartheid and the lifting of sanctions, South Africa is open for trade and investment. The development of a black professional and business class and the building of infrastructure facilities to enable all South Africans to participate in the economic life of the country provide enormous business opportunities for U.S. exporters of information technology. Even though there is strong price competition in the computer sector, Donga Michael will focus on the upper end of the consumer market. Donga Michael's competitive advantages over existing companies include a coordinated marketing program, prompt delivery and services, as well as a professional image and expertise in the North American market.

President and founder George Hunat brings a wealth of experience to the firm. Vice President Alice Munroe also has extensive marketing experience. The estimated required investment is \$200,000. Mr. Hunat will invest \$40,000 of his own personal funds in the business. Ms. Munroe will invest \$35,000, while \$80,000 will be borrowed from a local bank. The balance of \$45,000 is solicited from a venture capitalist who will acquire 37.5 percent of the corporation stock.

The company intends to become a major player in the South African market in the next five years capturing about 20 percent of the computer market. After this objective is realized, the company intends to explore export opportunities in Zimbabwe, Zambia, and Kenya.

GENERAL INDUSTRY AND COMPANY

The South African computer market is valued at over \$1 billion and is changing its focus from mainframes to personal computers (PCs) and PC-based networks. The increasing processing power coupled with decreasing prices for personal computers is also boosting demand for laptop computers and peripheral equipment, including printers and storage devices. Opportunities exist for sales of computers, peripherals, and accessories as South African manufacturing and service companies seek to become more competitive in the domestic and global marketplaces. Presently, about four U.S. companies sell computer hardware to the South African market. Local manufacture of PCs remains negligible, and there is an increasing demand for established computer brand-name products. Donga Michael intends to bring such products into the market at competitive prices to help regain the market share lost during the sanctions period. With closer economic relations between South Africa and other African countries, the South African market will become the beachhead from which exports could be made to neighboring states, such as Zimbabwe, Zambia, Kenya, Tanzania, and Uganda. An encouraging development pertaining to the industry is the revision of U.S. controls on computer exports in 1995. The new regulations eliminate or significantly ease controls on computer exports to most countries of the world, except those which are designated as terrorist states. There are no U.S. restrictions on computer products and accessories that Donga Michael plans to export to South Africa. A problem that plagues the industry in the short term, however, is the shortage of trained manpower to manage the complex and interconnected networks proliferating everywhere.

Donga Michael is a newly created export firm that is incorporated as a Chapter S corporation in the state of Florida. The company will market digital ABD machines with central processing input-output units, parts and accessories, laptop and notebook computers, networking software, and software for computer-aided design and electronic design automation. The products need not be adapted for the South African market except for the different voltages (i.e., 100 V). George Hunat and Alice Munroe comprise the two partners of the firm and also manage the company as president and vice president, respectively.

TARGET MARKET

South Africa has a gross domestic output of \$240 billion and a per capita income of \$3,700 (as of 2005) and remains the largest economy in sub-Saharan Africa. It possesses a modern infrastructure, supporting an efficient distribution of goods to major urban centers throughout the region and well-developed financial, legal, and communications sectors. Its economic growth has been in the range of 3 to 3.5 percent over the past five years. However, with favorable economic conditions and a stable political climate, it is likely to register higher rates of growth, estimated at 5 to 10 percent in the next few years and beyond. This is critical to offset high unemployment rates. Present efforts to revamp the educational system, boost economic productivity, and provide access to basic services to all South Africans present opportunities for U.S. companies to export computers and other information technology.

Total U.S. exports to South Africa in 2006 amounted to \$3.6 billion. The South African information technology market is the twentieth largest in the world and constitutes one of the top ten emerging markets that are being targeted by international computer companies. The base of installed personal computers is slightly over 950,000, and indications are that 84 percent of the top information technology users are investing in client-server systems. Information and communications technology spending is likely to grow from \$13 to \$18 billion in the next few years. The U.S. market share for computer peripherals was estimated at about 30 percent in 2003, amounting to about \$45 million. A couple of reasons account for the continual expansion of the market for computer peripherals and accessories include the following:

1. Because the country ended its isolation and instituted a democratic political system for all South Africans, there is a significant inflow of foreign investment. For example, between 2001 and 2004, about 200 companies set up factories or offices in South Africa. This creates business opportunities for exports of computers and information technology.
2. The black middle class has experienced faster growth since the end of the apartheid system. Hence, this emerging professional and business class will soon be a big consumer market.

In terms of market access, there are no restrictions or quotas on computer peripheral imports to South Africa. These imports are, however, subject to a 10 percent ad valorem tariff and a 14 percent value-added tax. There are no nontariff barriers such as prior deposits or foreign exchange restrictions (see Table F.1).

TABLE F.1. U.S. Exports/Imports to South Africa (Exports/Imports of Electronic Products in 1,000 of Dollars)

Year	2003	2004	2005
Value of U.S. Exports	398,843	474,776	531,069
Value of U.S. Imports	41,869	47,434	56,172

Source: U.S. International Trade Commission (2006). Washington, DC: U.S. Government Printing Office, p. 15.

There is fierce competition in the South African market. Acer Africa is the top PC assembler and distributor, followed by Mustek electronics and IBM. Third-country suppliers from the Far East, Britain, France, Germany, and Italy are also present. Donga Michael should focus on the upper end of the consumer market for use by the business sector. In spite of the relatively high prices compared to the competition, discerning firms know the value of quality products and would be favorably disposed to buying U.S. made computers and parts. U.S.-branded peripherals have high status in South Africa.

MARKETING PLAN AND SALES STRATEGY

Donga Michael, Inc., intends to target the middle- to upper-level business firms that are in the process of using computers for various office functions, such as finance and accounting, word processing, electronic communication, and presentation. It should later begin to focus on high schools, universities, and research centers by entering into a supply agreement with the government. The company can establish retail outlets in major cities, and since it represents a well-known brand, it can have a marketing advantage.

Donga Michael can also promote sales by participating in computer trade exhibitions, advertising, and carefully managed public relations programs, such as sponsorship of special events, charitable donations to social causes, and so on.

MANAGEMENT AND ORGANIZATION

The company is managed by George Hunat, founder and president, and Alice Munroe, vice president and director of sales and marketing. George

Hunat has an MSc in computer engineering from Emory University in Atlanta, Georgia. Since graduation in 1985, he has worked as director of logistics for a multinational firm in San Diego, California (1985-1989), and later joined a successful computer export firm in Silicon Valley, California, as export manager (1989-1997). He has extensive experience in computer sales, marketing, and logistics operations. Alice Munroe received a BA in computer systems from Texas A&M in 1987 and has since worked as a marketing manager for a communications firm in New York.

Donga Michael will employ six people and a clerk. The employees will be trained to handle distribution, storage, transportation, and marketing of Donga Michael's computer products. Two of the trainees will be sent to South Africa to handle marketing and distribution. They will also recruit and train South African employees who will handle the retail outlets in major urban centers. For the first few years, the retail outlets will be located in Johannesburg, Pretoria, and Cape Town (see Table F.2).

The employees and clerk will be paid hourly at \$8.00 and \$6.00 per hour, respectively. The capital structure and salary level are shown in Table F.2. Future increases in salary will be based on sales performance.

LONG-TERM DEVELOPMENT PLAN

Donga Michael plans to show steady progress over the next five years, becoming one of the largest retailers of computers and parts in South Africa. It plans to capture 20 percent of the market by the year 2008.

The marketing staff will be increased as more sales are generated. Additional sales distribution outlets will be established in other urban areas. After five years, the company plans to expand to Zimbabwe, Zambia, and Kenya. Additional bank financing will be secured to finance the expansion (for financial plan and balance sheet, see Tables F.3 and F.4).

TABLE F.2. Ownership Structure

Partners	Capital	Ownership Share (%)	Salary (\$/month)
George Hunat	\$40,000 (20%)	33.33	3,500
Alice Munroe	\$35,000 (17.5%)	29.16	3,000
Bank Loan	\$80,000 (40%)	—	
Venture Capital	\$45,000 (22.5%)	37.50	

TABLE F.3. Financial Plan: Donga Michael Export Company Forecasted Income Statements for the Ending Year

	2005 (\$)	2006 (\$)	2007 (\$)	2008 (\$)
Sales	120,000	1,120,000	3,980,000	5,200,000
Less cost of goods sold	30,000	350,000	600,000	1,350,000
Commission	10,000	120,000	200,000	420,000
Delivery	32,000	60,000	98,000	150,000
Total variable expenses	72,000	530,000	898,000	1,920,000
<i>Less fixed expenses</i>				
Rent	10,000	10,000	10,000	10,000
Advertising	15,000	22,000	25,000	60,000
Travel	20,000	25,000	27,000	20,000
Utilities	7,000	7,500	7,700	8,000
Wages	25,000	38,000	45,000	45,000
Misc.	15,000	18,000	22,000	25,000
Total fixed expenses	92,000	120,500	136,700	168,000
Net income	(44,000)	469,500	2,945,300	3,112,000

TABLE F.4. Forecasted Balance Sheet for the Ending Year

	2005 (\$)	2006 (\$)	2007 (\$)	2008 (\$)
<i>Assets</i>				
Cash	40,000	165,000	600,000	750,000
Accounts receivable	420,000	500,000	700,000	850,000
Inventory	100,000	150,000	160,000	220,000
Other	320,000	400,000	500,000	650,000
Less depreciation	15,000	25,000	30,000	45,000
Total assets	865,000	1,190,000	1,930,000	2,425,000
<i>Liabilities</i>				
Accounts payable	150,000	220,000	230,000	150,000
Long-term debt	80,000	50,000	40,000	22,000
Retailed earnings	—	220,000	200,000	400,000
Total liabilities and capital	230,000	490,000	470,000	572,000